

KEYSPAN ENERGY DELIVERY NEW ENGLAND
D.T.E. 05-68

SECOND SET OF INFORMATION REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY TO
KEYSPAN ENERGY DELIVERY NEW ENGLAND

DTE 2-14

Date: February 14, 2006

Respondent:

- Q. Refer to page 28 of the Company's filing. The Company states that the forecasting model employs a negative short-term price elasticity of demand for the commercial/industrial market.
- (a) Please explain why the Company did not use a long-term price elasticity;
 - (b) Provide the short-term as well as the long-term price elasticity; and
 - (c) List all assumptions that led the Company to select the short-term instead of the long-term price elasticity (e.g., consumer fuel switching capabilities).

- A. (a) The Company used a short-term price elasticity of demand only in the sense that it applied the price-elasticity estimate to the annual changes in prices to determine the resulting impact on changes in demand in each year of the forecast period. The Company uses this approach to ensure that it captures the impact of short-term behavioral changes on demand. These short-term behavioral changes include actions such as setting back thermostats, closing off rooms and increased used of supplemental heating sources such as wood stoves. If prices decrease in the short run, these behavioral changes may be reversed with a consequent impact on demand requirements.

Long-term price elasticity is reflected in the permanent measures customers take that affect demand. These long-term changes include the installation of insulation, storm doors and windows and replacing existing equipment with more efficient equipment. It is difficult to differentiate how much of the impact of long-term changes in customer behavior is tied to price impacts and how much is the result of technological change. However, the End-Use model captures the long-term impact of technological changes in algorithms that are separate from the price impacts.

- (b) The short-term price elasticity estimate is -0.15 for the commercial industrial market. The Company did not use a long-term price elasticity.
- (c) Please see the Company's response to (a) above.